carillion

Making tomorrow a better place

# News

**26 August 2015**

## Half-yearly financial report for the six months ended 30 June 2015

## Performance in line with expectations

| | Six months ended 30 June 2015 | Six months ended 30 June 2014 | Change |
|---|---|---|---|
| Revenue | £2,258.6m | £1,871.0m | +21% |
| Underlying profit from operations(1) | £112.5m | £97.4m | +16% |
| Underlying operating margin(1) | 5.1% | 5.5% | n/a |
| Underlying profit before taxation(1) | £84.5m | £75.9m | +11% |
| Underlying earnings per share(1) | 15.9p | 14.7p | +8% |
| Profit before taxation | £67.5m | £67.5m | - |
| Basic earnings per share | 12.7p | 13.2p | -4% |
| Interim dividend per share | 5.7p | 5.6p | +2% |
| Underlying profit from operations cash conversion(1) | 101% | 127% | n/a |

- **First-half financial performance in line with expectations**
  - Strong first-half revenue growth reflected the exceptional volume of new contracts won in 2014
  - Underlying profit and earnings grew strongly, despite substantial costs of mobilising new contracts and the expected effect of the margin in Construction services (excluding the Middle East) trending down towards a more normal level
  - Strong cash flow from operations with underlying operating cash conversion(1) of 101% (2014: 127%)
  - Net borrowing at 30 June 2015 of £199.6 million (31 December 2014: £177.3 million) reflected increases in non-operating cash flow items, including business acquisition costs and other investments
  - Balance sheet remains strong with over £1.3 billion of committed funding available to the Group

- **Strong, high-quality order book and growing pipeline of contract opportunities**
  - New first-half orders plus probable orders of £1.0 billion (2014: £3.2 billion) reflected the expected pause in public sector contract awards due to the UK General Election
  - Total secure orders plus probable orders remained strong at £17.1 billion at 30 June 2015 (31 December 2014: £18.6 billion), after removing £0.2 billion from the order book due to PPP equity sales
  - Revenue visibility(2) for 2015 of 96% at 30 June 2015 (2014: 93%)
  - Framework contracts worth up to £2.5 billion, which are not included in orders or probable orders
  - Pipeline of contract opportunities increased to £40.5 billion (31 December 2014: £39.2 billion)

- **Interim dividend increased by 2% to 5.7p (2014: 5.6p)**

- **On track to deliver full-year revenue growth with profit and earnings in line with expectations**

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

**Carillion Chairman, Philip Green, commented:**

"I am pleased to report that Carillion has continued to perform in line with expectations, which reflects the actions we took during the economic downturn to position our businesses in markets where we can now achieve revenue growth, consistent with our targets for margins and cash flow. We have also made good progress with mobilising a number of major new contracts won in 2014. Therefore, with a strong order book, a growing pipeline of contract opportunities and the prospect of market conditions continuing to improve, our expectations for 2015 and the medium term remain unchanged."

There will be a presentation for analysts and investors today at 09.00am. A telephone dial in facility tel: **+44 1296 311600** – Access Code: **318 357.** A replay facility is also available for 30 days, the telephone number is **+44 207 136 9233** – Access Code: **34863982** – if dialling in from overseas, please review the link attached for your dial in telephone number **http://www.conferencingsupport.com/globalaccess/?bid=00&itfn=1&ddi=1&ref**. Carillion Analyst Presentation will be available for analysts and investors who are unable to attend the presentation. The presentation can be viewed on Carillion's website at www.carillionplc.com/investors/investors_presentations.asp.

**For further information contact:**

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**26 August 2015**

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**Notes to Editors:**
Carillion is a leading integrated support services company with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector leading ability to deliver sustainable solutions. The Group had annual revenue in 2014 of some £4.1 billion, employs around 46,000 people and operates across the UK, in the Middle East and Canada.

The Group has four business segments:

Support services – this includes facilities management, facilities services, energy services, utilities services, road maintenance, rail services and consultancy businesses in the UK, Canada and the Middle East.

Public Private Partnership (PPP) projects – this includes investing activities in PPP projects for Government buildings and infrastructure mainly in the Defence, Health, Education, Transport and Secure accommodation sectors in the UK and Canada.

Middle East construction services – this includes building and civil engineering activities in the Middle East.

Construction services (excluding the Middle East) - this includes building, civil engineering and developments activities in the UK and construction activities in Canada.

This and other Carillion news releases can be found at www.carillionplc.com.

**Photographs:**
High resolution photographs are available free of charge to the media at www.newscast.co.uk telephone + 44 (0) 208 886 5895.

**Cautionary statement**
This announcement may contain indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward-looking statements, whether as a result of new information, future events or otherwise.

**Key financial figures**

| | | **2015** | 2014 | Change |
|---|---|---|---|---|
| **Income statement** | | | | |
| Total revenue | £m | **2,258.6** | 1,871.0 | +21% |
| Underlying profit from operations(1) | £m | **112.5** | 97.4 | +16% |
| Total Group underlying operating margin(2) | Percentage | **5.1** | 5.5 | n/a |
| Support services underlying operating margin(2) | Percentage | **4.7** | 5.0 | n/a |
| Middle East construction services underlying operating margin(2) | Percentage | **5.8** | 6.2 | n/a |
| Construction services (excluding the Middle East) underlying operating margin(2) | Percentage | **3.2** | 4.2 | n/a |
| Underlying profit before taxation(3) | £m | **84.5** | 75.9 | +11% |
| Profit before taxation | £m | **67.5** | 67.5 | - |
| Underlying earnings per share(4) | Pence | **15.9** | 14.7 | +8% |
| Basic earnings per share | Pence | **12.7** | 13.2 | -4% |
| Diluted earnings per share | Pence | **12.7** | 13.1 | -3% |
| **Dividends** | | | | |
| Proposed interim dividend per share | Pence | **5.7** | 5.6 | +2% |
| Underlying proposed dividend cover(4) | Times | **2.8** | 2.6 | n/a |
| Basic proposed dividend cover | Times | **2.2** | 2.4 | n/a |
| **Cash flow statement** | | | | |
| Cash generated from operations(5) | £m | **113.1** | 123.5 | -8% |
| Underlying profit from operations cash conversion | Percentage | **101** | 127 | n/a |
| Deficit pension contributions | £m | **(22.2)** | (19.1) | -16% |
| **Balance sheet** | | | | |
| Net borrowing | £m | **(199.6)** | (203.6) | +2% |
| Committed borrowing facilities maturing in 2017 and 2018 | £m | **850.0** | 850.0 | - |
| Private placement borrowings maturing between 2017 and 2024 (£135 million and US$ 280 million) | £m | **(313.3)** | (298.7) | -5% |
| Convertible bonds maturing by 2019 | £m | **(170.0)** | - | n/a |
| Net retirement benefit liability (net of taxation) | £m | **(355.9)** | (304.7) | -17% |
| Net assets | £m | **934.4** | 968.7 | -4% |

(1) After Joint Ventures net financial expense of £1.3 million (2014: £3.9 million) and Joint Ventures taxation charge of £1.5 million (2014: £1.1 million) and before intangible amortisation £8.2 million (2014: £8.4 million).

(2) Before Joint Ventures net financial expense and taxation charge, intangible amortisation and non-operating items of £1.5 million (2014: Nil) (see note 3 to the financial information on page 27).

(3) After Joint Ventures taxation charge and before intangible amortisation, non-operating items and fair value movements in derivative financial instruments of £7.3 million (2014: Nil) (see notes 3 and 4 to the financial information on page 27).

(4) Before intangible amortisation, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 27).

(5) Before pension deficit recovery payments and rationalisation costs and after proceeds on the disposal of Public Private Partnership equity investments and dividends received from Joint Ventures.

**Summary results**

Overall, the Group's first-half performance was in line with the Board's expectations. The steady improvements in market conditions that we saw in 2014 have continued in 2015. Following an exceptionally strong work-winning performance in 2014, we have remained focused on mobilising a number of major new contracts, notably in support services, with which we continue to make good progress. Consequently, total first-half revenue increased by 21 per cent to some £2.3 billion (2014: £1.9 billion) and the Group remains on track to deliver healthy full-year revenue growth, while continuing to maintain margin discipline through being very selective in choosing the contracts for which we bid, supported by our ongoing focus on cost management.

Underlying profit from operations[(1)] increased by 16 per cent to £112.5 million (2014: £97.4 million). The Group's underlying operating margin[(1)] reduced to 5.1 per cent (2014: 5.5 per cent), which included the expected effect of substantial contract mobilisation costs following our strong work-winning performance in 2014. Underlying profit before taxation[(1)] increased by 11 per cent to £84.5 million (2014: £75.9 million), after an increase in the Group's underlying net financial expense to £28.0 million (2014: £21.5 million). The increase in the underlying net financial expense included the underlying interest charge relating to £170 million of convertible bonds issued in December 2014, but excludes the change in fair value of the derivative instrument related to these bonds. Underlying earnings per share[(1)] increased by eight per cent to 15.9 pence (2014: 14.7 pence), after an increase in the Group's underlying effective tax rate[(2)] to 15 per cent (2014: 14 per cent).

First-half cash flow remained strong with cash flow from operations[(1)] representing 101 per cent of underlying profit from operations (2014: 127 per cent). The increase in net borrowing at 30 June 2015 to £199.6 million (31 December 2014: £177.3 million) was in line with expectations and reflected the effect of paying the final dividend for 2014 in June 2015, together with increases in non-operating cash flow items, notably in respect of acquisitions, investments in Public Private Partnership projects and pension deficit contributions.

As expected, new order intake in the first half of 2015 was affected by the usual pause in public sector contract awards that is caused by a UK General Election and by the fact that fewer bids were due to reach contract award stage in the first half of 2015 than in the corresponding period in 2014. Consequently, the value of new orders and probable orders won in the first half of 2015 of £1.0 billion (2014: £3.2 billion) was lower than in the first half of 2014, when work winning was exceptionally strong. Nevertheless, the value of the Group's order book plus probable orders at 30 June 2015 remained strong at £17.1 billion (31 December 2014: £18.6 billion), after removing from the order book some £0.2 billion due to the sale of equity investments in Public Private Partnership projects. Importantly, the Group's exceptionally strong work winning performance in 2014 meant that we entered 2015 with record revenue visibility[(3)] of 85 per cent and therefore well positioned to manage the effect of the slow down in public sector contract awards in 2015.

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Before intangible amortisation, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 27).
(3) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

At the half year, revenue visibility(1) had increased to 96 per cent and our pipeline of contract opportunities had increased to £40.5 billion.

In view of our expectations for the full year and the Group's medium-term prospects for growth, the Board has increased the interim dividend by two per cent to 5.7 pence per share (2014: 5.6 pence), which is covered 2.8 times by underlying earnings per share(2) (2014: 2.6 times).

**Business performance**

The 21 per cent increase in first-half revenue to £2,258.6 million (2014: £1,871.0 million), included increased contributions from support services, Middle East construction services and construction services (excluding the Middle East).

The 16 per cent increase in underlying profit from operations(2) to £112.5 million (2014: £97.4 million), included increased contributions from support services, Middle East construction services and Public Private Partnership (PPP) projects, with the latter due to an increased contribution from the sale of equity investments in PPP projects, which we expect to be first-half weighted in 2015. The Group's underlying operating margin(2) reduced to 5.1 per cent (2014: 5.5 per cent), which included the effects of substantial contract mobilisations costs incurred following our exceptionally strong work-winning performance in 2014 together with the expected reduction in the underlying operating margin in construction services (excluding the Middle East) which is trending down towards a more normal level in line with our long-standing guidance.

Underlying profit before taxation(2) increased by 11 per cent to £84.5 million (2014: £75.9 million), after an increase in the Group's underlying net financial expense to £28.0 million (2014: £21.5 million), which was largely due to the underlying interest charge relating to the £170 million of convertible bonds issued by the Group in December 2014. The underlying net financial expense excludes a £7.3 million non-cash, fair value movement in the derivative financial instrument associated with the convertible bonds.

After increases in the Group's underlying taxation charge(3) to £11.6 million (2014: £9.4 million) and in profit attributable to non-controlling interests to £4.5 million (2014: £3.2 million), underlying profit attributable to shareholders and underlying earnings per share(2) both increased by eight per cent to £68.4 million (2014: £63.3 million) and 15.9 pence (2014: 14.7 pence), respectively.

The underlying Group taxation charge(3) of £11.6 million (2014: £9.4 million), when combined with taxation in respect of Joint Ventures of £1.5 million (2014: £1.1 million), represented an underlying effective tax rate(3) of 15 per cent (2014: 14 per cent). The Group's underlying effective tax rate(3) remains below the UK standard corporation tax rate of 20 per cent in 2015/16, because our profits in the Middle East and from the disposal of PPP equity investments are subject to zero or low tax rates and because we continue to utilise tax losses associated with acquisitions.

(1) Based on expected revenue and secure and probable orders which exclude variable work, frameworks and re-bids.
(2) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(3) Before intangible amortisation, non-operating items and fair value movements in derivative financial instruments.

Following an intangible amortisation charge of £8.2 million (2014: £8.4 million) and the fair value charge relating to the derivative financial instrument associated with the Group's convertible bond of £7.3 million (2014: Nil), reported profit before taxation was £67.5 million (2014: £67.5 million). After a Group taxation charge of £8.3 million (2014: £7.7 million) and non-controlling interests of £4.5 million (2014: £3.2 million), basic earnings per share reduced by four per cent to 12.7 pence per share (2014: 13.2 pence per share).

**Dividend**

The interim dividend has been increased by two per cent to 5.7 pence per share (2014: 5.6 pence per share), which is covered 2.8 times by underlying earnings per share(1) (2014: 2.6 times). Carillion continues to have a progressive dividend policy, which aims to increase the full-year dividend broadly in line with the growth in underlying earnings per share(1), subject to the investment needs of the business.

**Order book and pipeline**

As already mentioned, the Group's work winning performance in the first half of 2015 was affected by the UK General Election and by the timing of bids in our pipeline, as fewer bids were due to reach contract award decisions in the first half of 2015 than in the first half of 2014. Consequently, the value of new first-half orders and probable orders amounted to £1.0 billion, compared with £3.2 billion in the first half of 2014 when work winning was exceptionally strong. Nevertheless, the Group continues to have a strong, high-quality order book plus probable orders, which was worth some £17.1 billion at 30 June 2015 (31 December 2014: £18.6 billion), which does not include framework contracts that we expect to generate up to a further £2.5 billion of revenue for the Group. The value of our pipeline of contract opportunities increased during the first half and at 30 June 2015 it was worth £40.5 billion (31 December 2014: £39.2 billion) and this continues to support our medium-term targets for growth.

**Financial reporting segments and analysis**

**Operating profit by financial reporting segment**

| | **2015** **£m** | 2014 £m | Change from 2014 % |
|---|---|---|---|
| Support services | **58.3** | 55.3 | +5% |
| Public Private Partnership projects | **26.4** | 20.5 | +29% |
| Middle East construction services | **18.9** | 13.2 | +43% |
| Construction services (excluding the Middle East) | **19.3** | 19.2 | +1% |
| | **122.9** | 108.2 | +14% |
| Group eliminations and unallocated items | **(7.6)** | (5.8) | -31% |
| Profit from operations before Joint Ventures net financial expense and taxation | **115.3** | 102.4 | +13% |
| Share of Joint Ventures net financial expense | **(1.3)** | (3.9) | +67% |
| Share of Joint Ventures taxation | **(1.5)** | (1.1) | -36% |
| Underlying profit from operations(1) | **112.5** | 97.4 | +16% |
| Intangible amortisation | **(8.2)** | (8.4) | +2% |
| Reported profit from operations | **104.3** | 89.0 | +17% |

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.

## Support services

| | 2015 £m | 2014 £m | Change from 2014 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **1,158.6** | 942.9 | |
| - Share of Joint Ventures | **79.9** | 157.9 | |
| | **1,238.5** | 1,100.8 | +13 |
| **Underlying operating profit**(1) | | | |
| - Group | **48.8** | 43.1 | |
| - Share of Joint Ventures | **9.5** | 12.2 | |
| | **58.3** | 55.3 | +5 |

(1) Before intangible amortisation.

In this segment we report the results of our facilities management, facilities services, energy services, rail services, road maintenance services, utilities services and consultancy businesses in the UK, Canada and the Middle East.

The substantial increase in support services revenue was due primarily to organic growth following our exceptional work-winning performance in 2014, plus a contribution from business acquisitions, notably the acquisition of a 60 per cent interest in the Rokstad Corporation, in Canada, in December 2014. This strong performance keeps us on track to achieve our target of delivering healthy revenue growth in the full year.

The increase in underlying operating profit reflected revenue growth, partially offset by a reduction in the operating margin to 4.7 per cent (2014: 5.0 per cent) due to the costs of mobilising a record number of major new contracts won in 2014. Although absorbing mobilisation costs also has the potential to impact the full-year operating margin, we continue to target a full-year margin close to the 5.8 per cent we achieved in 2014.

As expected, the value of new first-half orders and probable orders of some £0.6 billion was lower than that in the first half of 2014 (2014: £2.2 billion), due to the effect of the UK General Election and the fact that we had fewer new bids reaching contract award in the first half of 2015 than in the same period in 2014. However, we expect the pace of contract awards to pick up in the second half of 2015, although we continue to expect the total value of new orders and probable orders in 2015 to be lower than the exceptional level achieved in 2014.

Despite the slower pace of contract awards in the first half of 2015, our support services order book plus probable orders at 30 June 2015 remained strong at £13.3 billion (31 December 2014: £14.1 billion) and it continues to include a large number of high-quality, long-term contracts with blue-chip companies and Government Departments. We therefore continue to have good revenue visibility(2), which at 30 June 2015 stood at 98 per cent for 2015.

(2) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

In May 2015, we acquired 100 per cent interest in the Outland Group which is a leading provider of remote site accommodation and services in Canada, for a cash consideration of up to £63 million, depending on future financial performance. The acquisitions of the Rokstad Corporation in December 2014 and the Outland Group are performing in line with the Board's expectations. Since the half year, we have announced further significant successes in support services: a Carillion Joint Venture has secured a package of works for Highways England to transform sections of the M6, M20 and M23 into Smart Motorways that has a revenue value to Carillion of up to £238 million, which was classified as a probable order at 30 June 2015; and Carillion has been selected by the UK Government as one of only three contractors to deliver all categories of service under a new facilities management framework agreement under which Central Government Departments and other Government bodies expect to outsource up to a total of £4.1 billion of facilities management services over the period to 2019.

At the half year, our pipeline of contract opportunities in support services increased to £11.7 billion (31 December 2014: £11.1 billion) and continues to include significant opportunities in each of our three geographies and supports our target of continuing to deliver revenue growth in support services over the medium term at broadly stable margins.

**Public Private Partnership (PPP) projects**

| | **2015 £m** | 2014 £m | Change from 2014 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **0.6** | 0.7 | |
| - Share of Joint Ventures | **81.9** | 94.8 | |
| | **82.5** | 95.5 | -14 |
| **Underlying operating profit**(1) | | | |
| - Group | **22.6** | 15.1 | |
| - Share of Joint Ventures | **3.8** | 5.4 | |
| | **26.4** | 20.5 | +29 |

(1) Before intangible amortisation.

In this segment we report the equity returns on our investments in the PPP projects we have in the UK and in Canada.

In the first half we sold two further investments that generated proceeds of approximately £44 million, the majority of which was received in the first half, with the balance received in the second half. These proceeds represented an average discount rate of some seven per cent and a net profit of £24 million.

First-half revenue reduced primarily as a result of selling equity investments in mature projects in 2014. Underlying operating profit increased, because we sold more equity investments the first half of 2015 than in the same period in 2014 and we continue to expect profit from equity sales to be first-half weighted.

At 30 June 2015, we had a portfolio of 14 financially closed projects in which we had invested approximately £44 million of equity and into which we are committed to invest a further £45 million of equity once construction is completed. At 30 June 2015, the Directors' valuation of the investments in our portfolio of financially closed projects was some £52 million, based on discounting the cash flows from these investments at nine per cent. The net present value of these investments at 30 June 2015 based on a seven per cent discount rate was £70 million. The value of our order book plus probable orders at 30 June 2015 was some £1.0 billion (31 December 2014: £1.2 billion), which reflected the effect of the two first-half equity sales that removed approximately £0.2 billion from the order book.

At the half year, Carillion Joint Ventures were the preferred bidders for two projects, namely, the Midlands Priority Schools Programme, in which we expect to invest £5.5 million of equity, and North Battleford Hospital in Canada, in which we also expect to invest up to £5 million of equity. These two projects are also expected to generate support services and construction revenue for the Group of up to some £250 million. In addition, at the half year we were shortlisted for six projects in which we could invest up to a total of £76 million of equity and from which we could also generate substantial support services and construction revenues.

Since the half year, Carillion Joint Ventures have been appointed as the preferred bidder for two further projects: the Midlands Metropolitan Hospital in which we plan to invest some £16 million of equity and from which we expect to generate construction revenue of £297 million and support services revenue of some £140 million over the 30-year life of the concession contract; and Stanton Territorial Hospital in Canada in which we expect to invest up to £5 million of equity and from which we expect to generate up to £100 million of support services revenue over the 33-year concession contract. Given these recent successes and our healthy pipeline of other new project opportunities, which at the half year was worth £3.6 billion (31 December 2014: £2.5 billion), we remain well-positioned to continue adding projects to our portfolio over the medium term and therefore to continue recycling equity investments.

**Middle East construction services**

| | **2015 £m** | 2014 £m | Change from 2014 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **194.4** | 125.7 | |
| - Share of Joint Ventures | **132.1** | 86.9 | |
| | **326.5** | 212.6 | +54 |
| **Underlying operating profit**(1) | | | |
| - Group | **16.1** | 11.5 | |
| - Share of Joint Ventures | **2.8** | 1.7 | |
| | **18.9** | 13.2 | +43 |

(1) Before intangible amortisation.

In this segment we report the results of our building and civil engineering activities in the Middle East and North Africa.

First-half revenue increased substantially, reflecting our work winning success in 2014 and the phasing of contract opportunities coming to market. The first-half underlying operating profit also increased substantially with the margin ahead of our expectations at 5.8 per cent (2014: 6.2 per cent), because re-organising our staff accommodation facilities in the Middle East generated a greater benefit than expected and this more than offset the contribution to profit that we generated in the first half of 2014 from winning contracts with the support of UK Export Finance (UKEF) that was not repeated in the first half of 2015.

In the full year, we continue to expect strong revenue growth, with the underlying operating margin below the level we achieved in 2014, in line with previous guidance, as we do not expect further contract opportunities supported by UKEF until late in 2015. On this basis we continue to target growth in underlying operating profit in the full year, with revenue growth more than offsetting the effect of a lower underlying operating margin.

New first-half orders and probable orders broadly matched revenue, to leave the total value of orders and probable orders in this segment unchanged at £0.9 billion (31 December 2014: £0.9 billion), with revenue visibility(1) for 2015 of 91 per cent. Since the half year, we have secured an £80 million contract for BP to build accommodation and other facilities for its Khazzan Gas Project in Oman that was classified as a probable order at 30 June 2015.

In addition, we continue to have a strong pipeline of other contract opportunities in the Middle East worth some £15.7 billion (31 December 2014: £15.4 billion), which supports our expectation that the medium-term outlook for construction is positive with demand driven by investment in a number of our key markets, including further opportunities to work with UKEF. In Dubai, we continue to see increasing investment, much of which is to support Dubai's role as host to EXPO 2020. In Oman, we have a strong pipeline, in addition to which we now have the prospect of an emerging Public Private Partnership market. In Qatar, we continue to focus on the Msheireb Downtown Doha project, which is one of the largest projects we have ever undertaken in the Middle East. Therefore, we believe our pipeline continues to support our target of delivering revenue growth over the medium term, with the prospect of the margin moving ahead if the current trend of an improving balance between supply and demand continues.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

**Construction services** (excluding the Middle East)

| | **2015 £m** | 2014 £m | Change from 2014 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **607.7** | 451.6 | |
| - Share of Joint Ventures | **3.4** | 10.5 | |
| | **611.1** | 462.1 | +32 |
| **Underlying operating profit**(2) | | | |
| - Group | **18.5** | 19.0 | |
| - Share of Joint Ventures | **0.8** | 0.2 | |
| | **19.3** | 19.2 | +1 |

(2) Before intangible amortisation.

In this segment we report the results of our UK building, civil engineering and developments businesses, together with those of our construction activities in Canada.

First-half revenue increased substantially, reflecting our strong work-winning performance in 2014, with growth in UK construction revenue more than offsetting a further modest decline in revenue in Canada, the latter continues to reflect our previously announced strategy of tightening our selective approach in order to focus on winning construction work for Public Private Partnership projects. The underlying operating margin reduced to 3.2 per cent (2014: 4.2 per cent), which is consistent with our long-standing guidance that the margin in this segment would trend back towards a more normal level of between 2.5 per cent and 3.0 per cent as the temporary benefits to margins, due to rescaling of our UK construction business, decline. However, underlying operating profit was more than maintained because the effect of the lower underlying operating margin was more than offset by revenue growth.

In the full year, we continue to target revenue growth in UK construction and we expect this to broadly offset the planned reduction in revenue in Canada. We also continue to expect the full-year operating margin to be lower than the 3.8 per cent we achieved in 2014, although the full-year margin is likely to remain above the 2.5 per cent to 3.0 per cent level at which we expect the margin to stabilise over the next 12 to 18 months. Over the medium term, we expect to continue targeting overall revenue growth in this segment at an operating margin of between 2.5 per cent and 3.0 per cent, which we also believe will be towards the top end of the industry range.

The intake of new orders and probable orders in the first half of some £0.2 billion was lower than in the first half of 2014 and consequently the total value of orders plus probable orders in this segment at the half year reduced to £1.9 billion (31 December 2014: £2.4 billion). Revenue visibility(1) in this segment for 2015 is currently 91 per cent. Since the half year, we have won further contracts and probable orders worth over £460 million, including being selected as the preferred bidder for the Midlands Metropolitan Hospital which we expect to generate £297 million of construction revenue.

Our pipeline of contract opportunities at 30 June 2015 was worth £9.5 billion (31 December 2014: £10.2 billion), with the reduction reflecting the tightening of our selective approach to construction contracts in Canada. Nevertheless, in absolute terms the order book remains strong and over the medium term we expect to continue targeting revenue growth in this segment, consistent with our selective approach to the contracts for which we bid.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

**Pensions**

The Group's first-half pensions charge against operating profit in respect of defined benefit schemes was £5.3 million (2014: £5.8 million). The non-cash interest charge relating to pensions increased to £9.0 million (2014: £8.1 million), which reflected an increase in the Group's pre-tax retirement benefit liability from £370.1 million at 31 December 2013 to £509.7 million at 31 December 2014. At 30 June 2015, the Group's pre-tax retirement benefit liability reduced to £446.3 million, with the post-tax liability reducing to £355.9 million (31 December 2014: £406.2 million), primarily due to an increase in the AA bond yield, relating to scheme liabilities.

**Cash flow**

| | **2015 £m** | 2014 £m |
|---|---|---|
| Underlying Group operating profit | **98.4** | 82.9 |
| Depreciation and other non-cash items | **(0.1)** | 15.0 |
| Working capital(1) | **6.1** | 21.3 |
| Dividends received from Joint Ventures | **8.7** | 4.3 |
| **Underlying cash flow from operations** | **113.1** | 123.5 |
| Deficit pension contributions | **(22.2)** | (19.1) |
| Rationalisation costs | **(2.2)** | (5.9) |
| Interest, tax and dividends | **(75.5)** | (66.4) |
| Net capital expenditure | **(1.1)** | (11.1) |
| Acquisitions and disposals | **(34.9)** | (10.6) |
| Other | **0.5** | 1.2 |
| **Change in net borrowing** | **(22.3)** | 11.6 |
| **Net borrowing at 1 January** | **(177.3)** | (215.2) |
| **Net borrowing at 30 June** | **(199.6)** | (203.6) |

First-half underlying cash flow from operations of £113.1 million (2014: £123.5 million) represented an underlying profit from operations cash conversion of 101 per cent (2014: 127 per cent). The Group's strong cash flow performance in 2014 has therefore continued into 2015. This confirms our long-standing guidance that the Group's cash flow would return to a normal profile when the rescaling of our UK construction business, which unavoidably involved a significant outflow of working capital, had been completed by the end of 2013.

Dividends received from Joint Ventures amounted to £8.7 million (2014: £4.3 million), with the increase reflecting a higher contribution from our Defence Joint Ventures and distributions from our property development Joint Ventures. Pension deficit reduction payments of £22.2 million increased, as expected, following the agreement reached with the Trustee in 2014 on a revised schedule of payments to the Group's principal pension schemes. Interest, tax and dividends amounted to £75.5 million, with the increase reflecting additional tax payments in our overseas businesses that cannot be sheltered by UK tax losses and the coupon payable on the Group's convertible bonds. Net capital expenditure of £1.1 million includes the continued investment in up-grading our back-office IT platform and new service delivery equipment in our support services business, partially offset by proceeds of £15.2 million from re-organising our staff accommodation facilities in the Middle East. Acquisitions and disposals of £34.9 million included sub-debt investments in Public Private Partnership (PPP) projects of £16.9 million, together with acquisition related payments of £18.0 million.

(1) Including net proceeds from the sale of PPP investments.

**Balance Sheet**

| | **30 June 2015 £m** | 31 December 2014 £m |
|---|---|---|
| Property, plant and equipment | **132.8** | 140.9 |
| Intangible assets | **1,645.7** | 1,610.8 |
| Investments | **156.7** | 139.9 |
| | **1,935.2** | 1,891.6 |
| Inventories, receivables and payables | **(352.3)** | (351.6) |
| Net retirement benefit liability (net of tax) | **(355.9)** | (406.2) |
| Other | **(93.0)** | (62.0) |
| **Net operating assets** | **1,134.0** | 1,071.8 |
| Net borrowing | **(199.6)** | (177.3) |
| **Net assets** | **934.4** | 894.5 |
| | | |
| **Average net borrowing** | **(486.5)** | (450.7) |

There are four notable movements in the balance sheet. First, the increase in intangible assets, which reflected the goodwill arising on the acquisition of the Outland Group. Second, the movement in investments arising from making further investments in Public Private Partnership projects during the first half. Third, the reduction in the Group's net retirement benefit liability, which, as mentioned above, was primarily due to an increase in the AA bond rate**.** Fourth, the increase in Other, which includes the deferred contingent consideration payable in respect of the Outland Group.

**Committed bank facilities, private placements and convertible bonds**

In total, the Group has available funding of over £1.3 billion, comprising committed bank facilities totalling £850 million, of which £785 million matures in 2018, together with private placement borrowings of £313 million, maturing between 2017 and 2024, and £170 million of convertible bonds maturing by 2019.

**Foreign exchange**

| | **Average** | | **Period End** | |
|---|---|---|---|---|
| **£ Sterling** | **2015** | 2014 | **2015** | 2014 |
| Middle East (US Dollar) | **1.53** | 1.67 | **1.57** | 1.71 |
| Oman (Rial) | **0.59** | 0.64 | **0.61** | 0.66 |
| UAE (Dirham) | **5.63** | 6.15 | **5.78** | 6.28 |
| Canada (Dollar) | **1.89** | 1.83 | **1.96** | 1.82 |

The value of sterling strengthened relative to the Canadian dollar and adversely affected the revenues we have reported for our activities in Canada by around £9 million. Against the US Dollar, sterling weakened, which has led to a favourable impact on Middle East revenues of around £30 million.

**Operational and financial risk management**

Carillion has rigorous policies and processes in place to identify, mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks. The Group's risk management policies and processes, together with the Group's principal operational and financial risks and the measures being taken to mitigate and manage these risks, are described on pages 20 and 21 of our 2014 Annual Report and Accounts, published in March 2015, and these are largely unchanged. The principal operational risks summarised on page 21 of that report include continuing to win work in existing and new target markets, consistent with our strategy for growth, managing major contracts successfully, managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base, developing and attracting excellent people to create a vibrant, diverse and flexible workforce, maintaining high standards of ethics and compliance in respect of managing contracts and meeting Regulatory requirements and maintaining high standards of Health & Safety and security, including cyber security. One principal risk has reduced since we published our 2014 Annual Report and Accounts, namely the risk that Government policy and priorities could change following the UK General Election in 2015. Given the Conservative Party won this Election, the new Government is generally expected to continue the policies it was pursuing as the largest party in the previous Coalition Government. The Group's principal financial risks, notably funding, liquidity, currency and counterparty risks, and how these are managed are summarised on pages 35 and 36 of our 2014 Annual Report and Accounts.

**Outlook and prospects**

We expect the Group to continue benefiting from the actions we took during the economic downturn to position our businesses in markets where we can now achieve revenue growth, whilst maintaining margin and cash flow discipline. Therefore, with a strong order book, a growing pipeline of contract opportunities and the prospect of market conditions continuing to improve, our expectations for 2015 and the medium term remain unchanged.

## Unaudited condensed consolidated income statement
### for the six months ended 30 June 2015

| | Note | **2015 £m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|---|
| Total revenue | | **2,258.6** | 1,871.0 | 4,071.9 |
| Less: Share of Joint Ventures' revenue | | **(297.3)** | (350.1) | (578.0) |
| **Group revenue** | 2 | **1,961.3** | 1,520.9 | 3,493.9 |
| Cost of sales | | **(1,809.2)** | (1,376.1) | (3,166.4) |
| **Gross profit** | | **152.1** | 144.8 | 327.5 |
| Administrative expenses | | **(85.9)** | (81.8) | (166.4) |
| Profit on disposal of Public Private Partnership equity investments | | **24.0** | 11.5 | 13.9 |
| **Group operating profit** | | **90.2** | 74.5 | 175.0 |
| Analysed between: | | | | |
| Group operating profit before intangible amortisation | | **98.4** | 82.9 | 191.8 |
| Intangible amortisation(1) | | **(8.2)** | (8.4) | (16.8) |
| | | | | |
| **Share of results of Joint Ventures** | 2 | **14.1** | 14.5 | 25.1 |
| Analysed between: | | | | |
| Operating profit | | **16.9** | 19.5 | 34.2 |
| Net financial expense | | **(1.3)** | (3.9) | (6.4) |
| Taxation | | **(1.5)** | (1.1) | (2.7) |
| | | | | |
| **Profit from operations** | | **104.3** | 89.0 | 200.1 |
| Analysed between: | | | | |
| Profit from operations before intangible amortisation | | **112.5** | 97.4 | 216.9 |
| Intangible amortisation(1) | | **(8.2)** | (8.4) | (16.8) |
| | | | | |
| Non-operating items | 3 | **(1.5)** | - | (9.9) |
| Net financial expense | 4 | **(35.3)** | (21.5) | (47.6) |
| Analysed between: | | | | |
| Financial income | | **0.7** | 0.7 | 2.3 |
| Financial expense | | **(28.7)** | (22.2) | (46.3) |
| Fair value movements in derivative financial instruments | | **(7.3)** | - | (3.6) |
| | | | | |
| **Profit before taxation** | | **67.5** | 67.5 | 142.6 |
| Analysed between: | | | | |
| Profit before taxation, intangible amortisation, non-operating items and fair value movements in derivative financial instruments | | **84.5** | 75.9 | 172.9 |
| Intangible amortisation(1) | | **(8.2)** | (8.4) | (16.8) |
| Non-operating items | 3 | **(1.5)** | - | (9.9) |
| Fair value movements in derivative financial instruments | | **(7.3)** | - | (3.6) |
| | | | | |
| Taxation | 5 | **(8.3)** | (7.7) | (15.1) |
| **Profit for the period** | | **59.2** | 59.8 | 127.5 |
| | | | | |
| **Profit attributable to**: | | | | |
| Equity holders of the parent | | **54.7** | 56.6 | 120.7 |
| Non-controlling interests | | **4.5** | 3.2 | 6.8 |
| **Profit for the period** | | **59.2** | 59.8 | 127.5 |
| | | | | |
| **Earnings per share** | 6 | | | |
| Basic | | **12.7p** | 13.2p | 28.0p |
| Diluted | | **12.7p** | 13.1p | 25.4p |

(1) Arising from business combinations.

## Unaudited condensed consolidated statement of comprehensive income
**for the six months ended 30 June 2015**

| | | **2015** | | 2014 | | Year ended 31 December 2014 |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | £m | £m | £m | £m |
| **Profit for the period** | | **59.2** | | 59.8 | | 127.5 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | | | |
| Remeasurement of retirement benefit liabilities | **50.9** | | (21.5) | | (171.6) | |
| Taxation relating to items that will not be reclassified | **(10.2)** | | 4.3 | | 34.4 | |
| | **40.7** | | (17.2) | | (137.2) | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | | | |
| Gain on hedge of net investment in foreign operations | **3.8** | | 2.5 | | 0.1 | |
| Currency translation differences on foreign operations | **(16.4)** | | (8.7) | | 2.6 | |
| Movement in fair value of cash flow hedging derivatives | **1.6** | | (2.1) | | 8.2 | |
| Reclassification of effective portion of cash flow hedging derivatives to profit | **1.1** | | 4.9 | | (10.8) | |
| Increase in fair value of available for sale assets | **0.4** | | 0.5 | | 0.1 | |
| Taxation relating to items that may be reclassified | **(1.1)** | | (0.1) | | (1.6) | |
| Share of recycled cash flow hedges within joint ventures (net of taxation) | **3.6** | | - | | 1.5 | |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | **(0.2)** | | (0.8) | | (2.9) | |
| | **(7.2)** | | (3.8) | | (2.8) | |
| **Other comprehensive income/(expense) for the period** | | **33.5** | | (21.0) | | (140.0) |
| **Total comprehensive income/(expense) for the period** | | **92.7** | | 38.8 | | (12.5) |
| **Attributable to:** | | | | | | |
| Equity holders of the parent | | **89.6** | | 36.2 | | (18.9) |
| Non-controlling interests | | **3.1** | | 2.6 | | 6.4 |
| | | **92.7** | | 38.8 | | (12.5) |

## Unaudited condensed consolidated statement of changes in equity
**for the six months ended 30 June 2015**

| | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Fair value reserve £m | Merger reserve £m | Retained earnings £m | Equity shareholders' funds £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | **215.1** | **21.2** | **(33.3)** | **(11.2)** | **0.3** | **400.9** | **279.7** | **872.7** | **21.8** | **894.5** |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 54.7 | 54.7 | 4.5 | 59.2 |
| **Other comprehensive income** | | | | | | | | | | |
| Net gain on hedge of net investment in foreign operations | - | - | 3.8 | - | - | - | - | 3.8 | - | 3.8 |
| Currency translation differences on foreign operations | - | - | (15.0) | - | - | - | - | (15.0) | (1.4) | (16.4) |
| Movement in fair value of cash flow hedging derivatives | - | - | - | 1.6 | - | - | - | 1.6 | - | 1.6 |
| Reclassification of effective portion of cash flow hedging derivatives to profit | - | - | - | 1.1 | - | - | - | 1.1 | - | 1.1 |
| Increase in fair value of available for sale assets | - | - | - | - | 0.4 | - | - | 0.4 | - | 0.4 |
| Remeasurement of retirement benefit liabilities | - | - | - | - | - | - | 50.9 | 50.9 | - | 50.9 |
| Taxation | - | - | (0.8) | (0.3) | - | - | (10.2) | (11.3) | - | (11.3) |
| Share of recycled cash flow hedges within joint ventures (net of taxation) | - | - | - | 3.6 | - | - | - | 3.6 | - | 3.6 |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | - | - | - | (0.2) | - | - | - | (0.2) | - | (0.2) |
| Transfer between reserves | - | - | - | - | - | (3.6) | 3.6 | - | - | - |
| **Total comprehensive (expense)/income** | - | - | (12.0) | 5.8 | 0.4 | (3.6) | 99.0 | 89.6 | 3.1 | 92.7 |
| **Transactions with owners** | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Acquisition of own shares | - | - | - | - | - | - | (0.4) | (0.4) | - | (0.4) |
| Equity settled transactions (net of taxation) | - | - | - | - | - | - | 0.4 | 0.4 | - | 0.4 |
| Dividends paid | - | - | - | - | - | - | (52.3) | (52.3) | (0.5) | (52.8) |
| **Total transactions with owners** | - | - | - | - | - | - | (52.3) | (52.3) | (0.5) | (52.8) |
| **At 30 June 2015** | **215.1** | **21.2** | **(45.3)** | **(5.4)** | **0.7** | **397.3** | **326.4** | **910.0** | **24.4** | **934.4** |

## Unaudited condensed consolidated statement of changes in equity
**for the six months ended 30 June 2014**

| | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Fair value reserve £m | Merger reserve £m | Retained earnings £m | Equity shareholders' funds £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2014** | 215.1 | 21.2 | (36.4) | (5.6) | 0.2 | 414.6 | 358.1 | 967.2 | 16.4 | 983.6 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 56.6 | 56.6 | 3.2 | 59.8 |
| **Other comprehensive income** | | | | | | | | | | |
| Net gain on hedge of net investment in foreign operations | - | - | 2.5 | - | - | - | - | 2.5 | - | 2.5 |
| Currency translation differences on foreign operations | - | - | (8.1) | - | - | - | - | (8.1) | (0.6) | (8.7) |
| Movement in fair value of cash flow hedging derivatives | - | - | - | (2.1) | - | - | - | (2.1) | - | (2.1) |
| Reclassification of effective portion of cash flow hedging derivatives to profit | - | - | - | 4.9 | - | - | - | 4.9 | - | 4.9 |
| Increase in fair value of available for sale assets | - | - | - | - | 0.5 | - | - | 0.5 | - | 0.5 |
| Remeasurement of retirement benefit liabilities | - | - | - | - | - | - | (21.5) | (21.5) | - | (21.5) |
| Taxation | - | - | (0.1) | - | - | - | 4.3 | 4.2 | - | 4.2 |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | - | - | - | (0.8) | - | - | - | (0.8) | - | (0.8) |
| Transfer between reserves | - | - | - | - | - | (6.9) | 6.9 | - | - | - |
| **Total comprehensive (expense)/income** | - | - | (5.7) | 2.0 | 0.5 | (6.9) | 46.3 | 36.2 | 2.6 | 38.8 |
| **Transactions with owners** | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Acquisition of own shares | - | - | - | - | - | - | (0.5) | (0.5) | - | (0.5) |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | (1.2) | (1.2) |
| Equity settled transactions (net of taxation) | - | - | - | - | - | - | 0.2 | 0.2 | - | 0.2 |
| Dividends paid | - | - | - | - | - | - | (51.6) | (51.6) | (0.6) | (52.2) |
| **Total transactions with owners** | - | - | - | - | - | - | (51.9) | (51.9) | (1.8) | (53.7) |
| **At 30 June 2014** | 215.1 | 21.2 | (42.1) | (3.6) | 0.7 | 407.7 | 352.5 | 951.5 | 17.2 | 968.7 |

## Unaudited condensed consolidated statement of changes in equity
### for the year ended 31 December 2014

| | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Fair value reserve £m | Merger reserve £m | Retained earnings £m | Equity shareholders' funds £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 215.1 | 21.2 | (36.4) | (5.6) | 0.2 | 414.6 | 358.1 | 967.2 | 16.4 | 983.6 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 120.7 | 120.7 | 6.8 | 127.5 |
| **Other comprehensive income** | | | | | | | | | | |
| Net gain on hedge of net investment in foreign operations | - | - | 0.1 | - | - | - | - | 0.1 | - | 0.1 |
| Currency translation differences on foreign operations | - | - | 3.0 | - | - | - | - | 3.0 | (0.4) | 2.6 |
| Movement in fair value of cash flow hedging derivatives | - | - | - | 8.2 | - | - | - | 8.2 | - | 8.2 |
| Reclassification of effective portion of cash flow hedging derivatives to profit | - | - | - | (10.8) | - | - | - | (10.8) | - | (10.8) |
| Increase in fair value of available for sale assets | - | - | - | - | 0.1 | - | - | 0.1 | - | 0.1 |
| Remeasurement of retirement benefit liabilities | - | - | - | - | - | - | (171.6) | (171.6) | - | (171.6) |
| Taxation | - | - | - | (1.6) | - | - | 34.4 | 32.8 | - | 32.8 |
| Share of recycled cash flow hedges within joint ventures (net of taxation) | - | - | - | 1.5 | - | - | - | 1.5 | - | 1.5 |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | - | - | - | (2.9) | - | - | - | (2.9) | - | (2.9) |
| Transfer between reserves | - | - | - | - | - | (13.7) | 13.7 | - | - | - |
| **Total comprehensive income/(expense)** | - | - | 3.1 | (5.6) | 0.1 | (13.7) | (2.8) | (18.9) | 6.4 | (12.5) |
| **Transactions with owners** | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Acquisition of own shares | - | - | - | - | - | - | (0.5) | (0.5) | - | (0.5) |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | (3.1) | (3.1) |
| Non-controlling interests arising from business combinations | - | - | - | - | - | - | - | - | 3.2 | 3.2 |
| Equity-settled transactions (net of taxation) | - | - | - | - | - | - | 0.5 | 0.5 | - | 0.5 |
| Dividends paid | - | - | - | - | - | - | (75.7) | (75.7) | (1.0) | (76.7) |
| Transfer between reserves | - | - | - | - | - | - | 0.1 | 0.1 | (0.1) | - |
| **Total transactions with owners** | - | - | - | - | - | - | (75.6) | (75.6) | (1.0) | (76.6) |
| **At 31 December 2014** | 215.1 | 21.2 | (33.3) | (11.2) | 0.3 | 400.9 | 279.7 | 872.7 | 21.8 | 894.5 |

## Unaudited condensed consolidated balance sheet
**as at 30 June**

| | Note | 2015 £m | 2014 £m | At 31 December 2014 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **132.8** | 136.5 | 140.9 |
| Intangible assets | | **1,645.7** | 1,544.8 | 1,610.8 |
| Retirement benefit assets | | **9.7** | 7.6 | 6.1 |
| Investments in joint ventures | | **143.8** | 142.8 | 130.6 |
| Other investments | | **12.9** | 7.8 | 9.3 |
| Deferred tax assets | | **130.0** | 112.0 | 142.6 |
| **Total non-current assets** | | **2,074.9** | 1,951.5 | 2,040.3 |
| **Current assets** | | | | |
| Inventories | | **53.6** | 53.5 | 50.1 |
| Trade and other receivables | | **1,477.7** | 1,237.7 | 1,325.4 |
| Cash and cash equivalents | 9 | **421.7** | 258.5 | 472.0 |
| Derivative financial instruments | | **6.1** | - | - |
| Current asset investments | | **-** | 2.0 | 1.9 |
| Income tax receivable | | **1.6** | 2.3 | 0.7 |
| **Total current assets** | | **1,960.7** | 1,554.0 | 1,850.1 |
| **Total assets** | | **4,035.6** | 3,505.5 | 3,890.4 |
| **Current liabilities** | | | | |
| Borrowing | | **(26.3)** | (19.6) | (35.3) |
| Derivative financial instruments | | **(27.7)** | (16.7) | (22.6) |
| Trade and other payables | | **(1,883.6)** | (1,623.3) | (1,727.1) |
| Provisions | | **(9.1)** | (27.3) | (8.6) |
| Income tax payable | | **(2.8)** | (5.4) | (8.3) |
| **Total current liabilities** | | **(1,949.5)** | (1,692.3) | (1,801.9) |
| **Non-current liabilities** | | | | |
| Borrowing | | **(595.0)** | (442.5) | (614.0) |
| Other payables | | **(83.8)** | - | (48.7) |
| Retirement benefit liabilities | | **(456.0)** | (389.8) | (515.8) |
| Deferred tax liabilities | | **(15.2)** | (9.4) | (11.3) |
| Provisions | | **(1.7)** | (2.8) | (4.2) |
| **Total non-current liabilities** | | **(1,151.7)** | (844.5) | (1,194.0) |
| **Total liabilities** | | **(3,101.2)** | (2,536.8) | (2,995.9) |
| **Net assets** | 2 | **934.4** | 968.7 | 894.5 |
| **Equity** | | | | |
| Share capital | 13 | **215.1** | 215.1 | 215.1 |
| Share premium | | **21.2** | 21.2 | 21.2 |
| Translation reserve | | **(45.3)** | (42.1) | (33.3) |
| Hedging reserve | | **(5.4)** | (3.6) | (11.2) |
| Fair value reserve | | **0.7** | 0.7 | 0.3 |
| Merger reserve | | **397.3** | 407.7 | 400.9 |
| Retained earnings | | **326.4** | 352.5 | 279.7 |
| **Equity attributable to shareholders of the parent** | | **910.0** | 951.5 | 872.7 |
| **Non-controlling interests** | | **24.4** | 17.2 | 21.8 |
| **Total equity** | | **934.4** | 968.7 | 894.5 |

## Unaudited condensed consolidated cash flow statement
**for the six months ended 30 June**

| | Note | **2015 £m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Group operating profit | | **90.2** | 74.5 | 175.0 |
| Depreciation and amortisation | | **22.1** | 21.4 | 44.8 |
| (Profit)/loss on disposal of property, plant and equipment | | **(13.9)** | 0.3 | 0.3 |
| Profit on disposal of Public Private Partnership equity investments | | **(24.0)** | (11.5) | (13.9) |
| Other non-cash movements | | **(0.1)** | 1.7 | (1.7) |
| **Operating profit before changes in working capital** | | **74.3** | 86.4 | 204.5 |
| Increase in inventories | | **(4.0)** | (5.3) | (1.4) |
| Increase in trade and other receivables | | **(157.9)** | (42.1) | (40.1) |
| Increase in trade and other payables | | **153.9** | 52.8 | 50.5 |
| **Cash generated from operations before pension deficit recovery payments and rationalisation costs** | | **66.3** | 91.8 | 213.5 |
| Deficit recovery payments to pension schemes | | **(22.2)** | (19.1) | (46.0) |
| Rationalisation costs | | **(2.2)** | (5.9) | (11.5) |
| **Cash generated from operations** | | **41.9** | 66.8 | 156.0 |
| Financial income received | | **0.7** | 1.2 | 2.9 |
| Financial expense paid | | **(17.0)** | (14.1) | (29.6) |
| Acquisition costs | | **(6.9)** | - | (1.2) |
| Taxation payments | | **(6.4)** | (1.3) | (4.3) |
| **Net cash flows from operating activities** | | **12.3** | 52.6 | 123.8 |
| **Cash flows from investing activities** | | | | |
| Disposal of property, plant and equipment | | **16.7** | 1.4 | 6.4 |
| Disposal of joint ventures and other investments | 11 | **38.1** | 27.4 | 36.0 |
| Dividends received from joint ventures | | **8.7** | 4.3 | 9.1 |
| Loan advance repayments received from joint ventures | | **0.9** | 4.2 | 15.9 |
| Decrease in current asset investments | | **-** | 0.4 | 0.5 |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 11 | **(9.5)** | (8.6) | (26.3) |
| Acquisition of non-controlling interests | | **-** | (1.2) | (3.1) |
| Acquisition of intangible assets | | **(0.3)** | (0.2) | (3.0) |
| Acquisition of property, plant and equipment | | **(17.5)** | (12.3) | (25.8) |
| Acquisition of equity in and loan advances to joint ventures | | **(17.4)** | (4.8) | (7.7) |
| Acquisition of other non-current asset investments | | **(0.4)** | (0.2) | (1.2) |
| **Net cash flows from investing activities** | | **19.3** | 10.4 | 0.8 |
| **Cash flows from financing activities** | | | | |
| (Repayment)/draw down of bank and other loans | | **(15.7)** | (155.5) | 14.7 |
| Repayment of finance lease liabilities | | **(4.3)** | (6.9) | (9.2) |
| Acquisition of own shares | | **(0.4)** | (0.5) | (0.5) |
| Dividends paid to equity holders of the parent | | **(52.3)** | (51.6) | (75.7) |
| Dividends paid to non-controlling interests | | **(0.5)** | (0.6) | (1.0) |
| **Net cash flows from financing activities** | | **(73.2)** | (215.1) | (71.7) |
| **(Decrease)/increase in net cash and cash equivalents** | | **(41.6)** | (152.1) | 52.9 |
| Net cash and cash equivalents at 1 January | | **465.8** | 410.4 | 410.4 |
| Effect of exchange rate fluctuations on net cash and cash equivalents | | **(5.9)** | (3.0) | 2.5 |
| **Net cash and cash equivalents at period end** | 9 | **418.3** | 255.3 | 465.8 |

**Notes to the unaudited condensed interim financial statements continued**

## 1 Significant accounting policies

### Basis of preparation

Carillion plc (the 'Company') is a company domiciled in the United Kingdom (UK). The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint ventures.

The condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

This interim financial information has been prepared applying the accounting policies and presentation which were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2014, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

There are no significant new financial reporting standards that require adoption in 2015.

The comparative financial information for the year ended 31 December 2014 does not constitute the Company's statutory accounts for the purposes of section 434 of the Companies Act 2006 for that financial year. The statutory accounts for the year ended 31 December 2014 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified, did not include references to any matter which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the interim management review on pages 4 to 14. The Group has considerable financial resources, including £850.0 million of committed bank facilities expiring in 2017 and 2018, £313.3 million of private placement notes expiring between 2017 and 2024 and £170.0 million of convertible bonds maturing by 2019. The Group has long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks summarised on pages 13 and 14. The Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed interim financial statements.

## 2 Segmental reporting

Segment information is presented in respect of the Group’s strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the Group Chief Executive, who is the Group’s chief operating decision maker.

Inter-segment pricing is determined on an arm’s length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, except finance items and income tax.

**Operating segments**
The Group is comprised of the following main operating segments:

**Support services**
In this segment we report the results, including licensing, of our facilities management, facilities services, energy services, road maintenance, rail services, utilities services and consultancy businesses in the UK, Canada and the Middle East.

**Public Private Partnership projects**
In this segment we report the equity returns on our investing activities in Public Private Partnership projects for Government buildings and infrastructure mainly in the defence, health, education, transport and secure accommodation sectors.

**Middle East construction services**
In this segment we report the results of our building and civil engineering activities in the Middle East and North Africa.

**Construction services (excluding the Middle East)**
In this segment we report the results of our UK building, civil engineering and developments businesses and our construction activities in Canada.

**Notes to the unaudited condensed interim financial statements continued**

## 2 Segmental reporting (continued)

### Segmental revenue and profit

| | 2015 | | 2014 | | Year ended 31 December 2014 | |
|---|---|---|---|---|---|---|
| | **Revenue £m** | **Operating profit before intangible amortisation £m** | Revenue £m | Operating profit before intangible amortisation £m | Revenue £m | Operating profit before intangible amortisation £m |
| **Support services** | | | | | | |
| Group | **1,158.6** | **48.8** | 942.9 | 43.1 | 2,099.7 | 113.5 |
| Share of joint ventures | **79.9** | **9.5** | 157.9 | 12.2 | 224.2 | 22.4 |
| | **1,238.5** | **58.3** | 1,100.8 | 55.3 | 2,323.9 | 135.9 |
| Inter-segment | **40.9** | **-** | 42.2 | - | 88.2 | - |
| **Total** | **1,279.4** | **58.3** | 1,143.0 | 55.3 | 2,412.1 | 135.9 |
| **Public Private Partnership projects** | | | | | | |
| Group | **0.6** | **22.6** | 0.7 | 15.1 | 1.5 | 24.1 |
| Share of joint ventures | **81.9** | **3.8** | 94.8 | 5.4 | 161.0 | 10.4 |
| | **82.5** | **26.4** | 95.5 | 20.5 | 162.5 | 34.5 |
| Inter-segment | **-** | **-** | - | - | - | - |
| **Total** | **82.5** | **26.4** | 95.5 | 20.5 | 162.5 | 34.5 |
| **Middle East construction services** | | | | | | |
| Group | **194.4** | **16.1** | 125.7 | 11.5 | 323.4 | 24.3 |
| Share of joint ventures | **132.1** | **2.8** | 86.9 | 1.7 | 177.3 | 0.8 |
| | **326.5** | **18.9** | 212.6 | 13.2 | 500.7 | 25.1 |
| Inter-segment | **-** | **-** | - | - | - | - |
| **Total** | **326.5** | **18.9** | 212.6 | 13.2 | 500.7 | 25.1 |
| **Construction services (excluding the Middle East)** | | | | | | |
| Group | **607.7** | **18.5** | 451.6 | 19.0 | 1,069.3 | 40.9 |
| Share of joint ventures | **3.4** | **0.8** | 10.5 | 0.2 | 15.5 | 0.6 |
| | **611.1** | **19.3** | 462.1 | 19.2 | 1,084.8 | 41.5 |
| Inter-segment | **12.9** | **-** | 4.5 | - | 14.5 | - |
| **Total** | **624.0** | **19.3** | 466.6 | 19.2 | 1,099.3 | 41.5 |
| **Group eliminations and unallocated items** | **(53.8)** | **(7.6)** | (46.7) | (5.8) | (102.7) | (11.0) |
| **Consolidated** | | | | | | |
| Group | **1,961.3** | **98.4** | 1,520.9 | 82.9 | 3,493.9 | 191.8 |
| Share of joint ventures | **297.3** | **16.9** | 350.1 | 19.5 | 578.0 | 34.2 |
| **Total** | **2,258.6** | **115.3** | 1,871.0 | 102.4 | 4,071.9 | 226.0 |

**Notes to the unaudited condensed interim financial statements continued**

## 2 Segmental reporting (continued)

### Reconciliation of operating segment results to reported results

| | **2015 £m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| **Group and share of joint ventures' operating profit before intangible amortisation** | **115.3** | 102.4 | 226.0 |
| Underlying net financial expense | | | |
| – Group | **(28.0)** | (21.5) | (44.0) |
| – Share of joint ventures | **(1.3)** | (3.9) | (6.4) |
| Share of joint ventures' taxation | **(1.5)** | (1.1) | (2.7) |
| **Underlying profit before taxation** | **84.5** | 75.9 | 172.9 |
| Intangible amortisation arising from business combinations | **(8.2)** | (8.4) | (16.8) |
| Non-operating items | **(1.5)** | - | (9.9) |
| Fair value movements in derivative financial instruments | **(7.3)** | - | (3.6) |
| **Profit before taxation** | **67.5** | 67.5 | 142.6 |
| Taxation | **(8.3)** | (7.7) | (15.1) |
| **Profit for the period** | **59.2** | 59.8 | 127.5 |

Intangible amortisation arising from business combinations is reported in the following segments:

| | **2015 £m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| Support services | **(7.2)** | (7.5) | (15.0) |
| Construction services (excluding the Middle East) | **(1.0)** | (0.9) | (1.8) |
| **Total** | **(8.2)** | (8.4) | (16.8) |

Depreciation and amortisation and capital expenditure arise in the following segments:

| | **2015** | | 2014 | | Year ended 31 December 2014 | |
|---|---|---|---|---|---|---|
| | **Depreciation and amortisation £m** | **Capital expenditure £m** | Depreciation and amortisation £m | Capital expenditure £m | Depreciation and amortisation £m | Capital expenditure £m |
| Support services | **(12.7)** | **(3.8)** | (10.4) | (8.3) | (24.8) | (13.1) |
| Middle East construction services | **(0.9)** | **(0.7)** | (0.9) | (1.2) | (1.8) | (2.2) |
| Construction services (excluding the Middle East) | **(1.5)** | **(0.3)** | (1.4) | (0.3) | (2.7) | (0.7) |
| Unallocated Group items | **(7.0)** | **(5.2)** | (8.7) | (17.7) | (15.5) | (28.8) |
| **Total** | **(22.1)** | **(10.0)** | (21.4) | (27.5) | (44.8) | (44.8) |

**Notes to the unaudited condensed interim financial statements continued**

## 2 Segmental reporting (continued)

### Segmental net assets

| | 2015 | | | 2014 | | | Year ended 31 December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Operating assets £m** | **Operating liabilities £m** | **Net operating assets/ (liabilities) £m** | Operating assets £m | Operating liabilities £m | Net operating assets/ (liabilities) £m | Operating assets £m | Operating liabilities £m | Net operating assets/ (liabilities) £m |
| **Support services** | | | | | | | | | |
| Intangible assets (1) | **1,379.7** | **-** | **1,379.7** | 1,263.2 | - | 1,263.2 | 1,328.3 | - | 1,328.3 |
| Operating assets | **670.7** | **-** | **670.7** | 595.4 | - | 595.4 | 689.1 | - | 689.1 |
| Investments | **15.1** | **-** | **15.1** | 16.7 | - | 16.7 | 13.3 | - | 13.3 |
| Total operating assets | **2,065.5** | **-** | **2,065.5** | 1,875.3 | - | 1,875.3 | 2,030.7 | - | 2,030.7 |
| Total operating liabilities | **-** | **(636.8)** | **(636.8)** | - | (641.3) | (641.3) | - | (631.3) | (631.3) |
| **Net operating assets/(liabilities)** | **2,065.5** | **(636.8)** | **1,428.7** | 1,875.3 | (641.3) | 1,234.0 | 2,030.7 | (631.3) | 1,399.4 |
| **Public Private Partnership projects** | | | | | | | | | |
| Operating assets | **5.5** | **-** | **5.5** | 2.8 | - | 2.8 | 2.4 | - | 2.4 |
| Investments | **37.2** | **-** | **37.2** | 23.2 | - | 23.2 | 20.5 | - | 20.5 |
| Total operating assets | **42.7** | **-** | **42.7** | 26.0 | - | 26.0 | 22.9 | - | 22.9 |
| Total operating liabilities | **-** | **(4.3)** | **(4.3)** | - | (5.3) | (5.3) | - | (1.6) | (1.6) |
| **Net operating assets/(liabilities)** | **42.7** | **(4.3)** | **38.4** | 26.0 | (5.3) | 20.7 | 22.9 | (1.6) | 21.3 |
| **Middle East construction services** | | | | | | | | | |
| Operating assets | **383.3** | **-** | **383.3** | 301.3 | - | 301.3 | 321.9 | - | 321.9 |
| Investments | **84.4** | **-** | **84.4** | 76.4 | - | 76.4 | 82.0 | - | 82.0 |
| Total operating assets | **467.7** | **-** | **467.7** | 377.7 | - | 377.7 | 403.9 | - | 403.9 |
| Total operating liabilities | **-** | **(372.6)** | **(372.6)** | - | (272.9) | (272.9) | - | (287.1) | (287.1) |
| **Net operating assets/(liabilities)** | **467.7** | **(372.6)** | **95.1** | 377.7 | (272.9) | 104.8 | 403.9 | (287.1) | 116.8 |
| **Construction services (excluding the Middle East)** | | | | | | | | | |
| Intangible assets (1) | **240.8** | **-** | **240.8** | 256.0 | - | 256.0 | 255.8 | - | 255.8 |
| Operating assets | **446.8** | **-** | **446.8** | 555.7 | - | 555.7 | 427.3 | - | 427.3 |
| Investments | **20.0** | **-** | **20.0** | 34.3 | - | 34.3 | 24.1 | - | 24.1 |
| Total operating assets | **707.6** | **-** | **707.6** | 846.0 | - | 846.0 | 707.2 | - | 707.2 |
| Total operating liabilities | **-** | **(595.5)** | **(595.5)** | - | (749.6) | (749.6) | - | (626.9) | (626.9) |
| **Net operating assets/(liabilities)** | **707.6** | **(595.5)** | **112.1** | 846.0 | (749.6) | 96.4 | 707.2 | (626.9) | 80.3 |
| **Consolidated before Group items** | | | | | | | | | |
| Intangible assets (1) | **1,620.5** | **-** | **1,620.5** | 1,519.2 | - | 1,519.2 | 1,584.1 | - | 1,584.1 |
| Operating assets | **1,506.3** | **-** | **1,506.3** | 1,455.2 | - | 1,455.2 | 1,440.7 | - | 1,440.7 |
| Investments | **156.7** | **-** | **156.7** | 150.6 | - | 150.6 | 139.9 | - | 139.9 |
| Total operating assets | **3,283.5** | **-** | **3,283.5** | 3,125.0 | - | 3,125.0 | 3,164.7 | - | 3,164.7 |
| Total operating liabilities | **-** | **(1,609.2)** | **(1,609.2)** | - | (1,669.1) | (1,669.1) | - | (1,546.9) | (1,546.9) |
| **Net operating assets/(liabilities) before Group items** | **3,283.5** | **(1,609.2)** | **1,674.3** | 3,125.0 | (1,669.1) | 1,455.9 | 3,164.7 | (1,546.9) | 1,617.8 |
| **Group items** | | | | | | | | | |
| Deferred tax assets/(liabilities) | **130.0** | **(15.2)** | **114.8** | 112.0 | (9.4) | 102.6 | 142.6 | (11.3) | 131.3 |
| Net cash/(borrowing) | **421.7** | **(621.3)** | **(199.6)** | 258.5 | (462.1) | (203.6) | 472.0 | (649.3) | (177.3) |
| Retirement benefits (gross of taxation) | **9.7** | **(456.0)** | **(446.3)** | 7.6 | (389.8) | (382.2) | 6.1 | (515.8) | (509.7) |
| Income tax | **1.6** | **(2.8)** | **(1.2)** | 2.3 | (5.4) | (3.1) | 0.7 | (8.3) | (7.6) |
| Other | **189.1** | **(396.7)** | **(207.6)** | 0.1 | (1.0) | (0.9) | 104.3 | (264.3) | (160.0) |
| **Net assets/(liabilities)** | **4,035.6** | **(3,101.2)** | **934.4** | 3,505.5 | (2,536.8) | 968.7 | 3,890.4 | (2,995.9) | 894.5 |

(1) Arising from business combinations.

## 2 Segmental reporting (continued)

### Geographic information – by origin

| | **2015** **£m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| **United Kingdom** | | | |
| Total revenue from external customers | **1,587.7** | 1,363.7 | 2,941.1 |
| Less: share of joint ventures' revenue | **(140.3)** | (212.7) | (308.9) |
| **Group revenue from external customers** | **1,447.4** | 1,151.0 | 2,632.2 |
| **Non-current assets** | **1,593.6** | 1,581.6 | 1,590.6 |
| **Middle East and North Africa** | | | |
| Total revenue from external customers | **378.0** | 260.5 | 575.5 |
| Less: share of joint ventures' revenue | **(143.3)** | (96.8) | (196.4) |
| **Group revenue from external customers** | **234.7** | 163.7 | 379.1 |
| **Non-current assets** | **87.7** | 80.9 | 86.5 |
| **Canada** | | | |
| Total revenue from external customers | **281.3** | 244.9 | 542.6 |
| Less: share of joint ventures' revenue | **(13.7)** | (40.6) | (72.7) |
| **Group revenue from external customers** | **267.6** | 204.3 | 469.9 |
| **Non-current assets** | **241.0** | 161.6 | 205.2 |
| **Rest of the World** | | | |
| Total revenue from external customers | **11.6** | 1.9 | 12.7 |
| Less: share of joint ventures' revenue | **-** | - | - |
| **Group revenue from external customers** | **11.6** | 1.9 | 12.7 |
| **Non-current assets** | **-** | - | - |
| **Consolidated** | | | |
| Total revenue from external customers | **2,258.6** | 1,871.0 | 4,071.9 |
| Less: share of joint ventures' revenue | **(297.3)** | (350.1) | (578.0) |
| **Group revenue from external customers** | **1,961.3** | 1,520.9 | 3,493.9 |
| **Non-current assets** | | | |
| Total of geographic analysis above | **1,922.3** | 1,824.1 | 1,882.3 |
| Retirement benefit assets | **9.7** | 7.6 | 6.1 |
| Other investments | **12.9** | 7.8 | 9.3 |
| Deferred tax assets | **130.0** | 112.0 | 142.6 |
| **Total non-current assets** | **2,074.9** | 1,951.5 | 2,040.3 |

## 2 Segmental reporting (continued)

Revenue from the Group's major customer, the UK Government, is shown below:

| | **2015** £m | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| Support services | **425.6** | 426.6 | 826.3 |
| Public Private Partnership projects | **70.6** | 55.0 | 89.8 |
| Construction services (excluding the Middle East) | **325.4** | 299.2 | 646.9 |
| | **821.6** | 780.8 | 1,563.0 |

## 3 Non-operating items

Non-operating items of £1.5 million for the six months ended 30 June 2015 relate to adviser costs incurred on the acquisition of Outland Group. An income tax credit relating to these costs amounting to £0.2 million is included within taxation in the income statement. Non-operating items in the year ended 31 December 2014 of £9.9 million relate to adviser costs incurred in relation to the aborted merger discussions with Balfour Beatty plc and the acquisition of Rokstad Power Corporation. An income tax credit of £1.8 million relating to these costs is included within taxation in the income statement.

## 4 Financial income and expense

| | **2015** £m | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| **Financial income** | | | |
| Bank interest receivable | **0.2** | 0.3 | 0.9 |
| Other interest receivable | **0.5** | 0.4 | 1.4 |
| **Total financial income** | **0.7** | 0.7 | 2.3 |
| **Financial expense** | | | |
| Interest payable on bank loans and overdrafts | **(6.4)** | (5.1) | (11.4) |
| Other interest payable and similar charges | **(13.3)** | (9.0) | (19.1) |
| Net interest expense on defined benefit pension obligations | **(9.0)** | (8.1) | (15.8) |
| Underlying financial expense | **(28.7)** | (22.2) | (46.3) |
| Fair value movements in the derivative component of convertible bonds | **(7.3)** | - | (3.6) |
| **Total financial expense** | **(36.0)** | (22.2) | (49.9) |
| **Net financial expense** | **(35.3)** | (21.5) | (47.6) |

Other interest payable and similar charges include Private Placement financing interest of £7.2 million (six months ended 30 June 2014: £7.2 million; year ended 31 December 2014: £14.3 million), finance lease charges of £0.5 million (six months ended 30 June 2014: £0.7 million; year ended 31 December 2014: £1.1 million), convertible bond coupon payments and interest accretion of £3.5 million (six months ended 30 June 2014: Nil; year ended 31 December 2014: £0.2 million) and the discount unwind associated with deferred contingent consideration on acquisitions and on onerous lease provisions of £1.1 million (six months ended 30 June 2014 : £0.1 million; year ended 31 December 2014 : £0.7 million)

No borrowing costs have been capitalised in any of the above periods.

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax credit of £1.5 million (30 June 2014: Nil; year ended 31 December 2014: £0.7 million) is included within taxation in the income statement.

## 5 Income tax

The Group's income tax expense (including the Group's share of joint ventures' income tax) for the six months ended 30 June 2015 is calculated based on the estimated average annual effective underlying income tax rate of 15 per cent (six months ended 30 June 2014: 14 per cent; 31 December 2014: 13.5 per cent). This effective rate differs to the UK standard corporation tax rate of 20 per cent (six months ended 30 June 2014: 21.5 per cent; 31 December 2014: 21.5 per cent) primarily due to items such as the effect of tax rates in foreign jurisdictions, certain exemptions available relating to capital items and the recognition of deferred tax on trading losses.

## 6 Earnings per share

**(a) *Basic***

The calculation of earnings per share for the six months ended 30 June 2015 is based on the profit attributable to equity holders of the parent of £54.7 million (six months ended 30 June 2014: £56.6 million; year ended 31 December 2014: £120.7 million) and a weighted average number of ordinary shares in issue of 430.2 million (six months ended 30 June 2014: 430.1 million; year ended 31 December 2014: 430.2 million), calculated as follows:

| In millions of shares | 2015 | 2014 | Year ended 31 December 2014 |
|---|---|---|---|
| Issued ordinary shares at beginning of period | **430.3** | 430.3 | 430.3 |
| Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust | **(0.1)** | (0.2) | (0.1) |
| **Weighted average number of ordinary shares** | **430.2** | 430.1 | 430.2 |

**(b) *Underlying performance***

A reconciliation of profit before taxation and basic earnings per share, as reported in the income statement, to underlying profit before taxation and earnings per share is set out below. The adjustments made in arriving at the underlying performance measures are made to illustrate the impact of the amortisation of intangible assets arising from business combinations, non-operating items and fair value movements in derivative financial instruments.

| | 2015 | | 2014 | | Year ended 31 December 2014 | |
|---|---|---|---|---|---|---|
| | **Profit before tax £m** | **Tax £m** | Profit before tax £m | Tax £m | Profit before tax £m | Tax £m |
| **Profit before taxation** | | | | | | |
| Profit before taxation as reported in the income statement | **67.5** | **8.3** | 67.5 | 7.7 | 142.6 | 15.1 |
| Amortisation of intangible assets arising from business combinations | **8.2** | **1.6** | 8.4 | 1.7 | 16.8 | 3.4 |
| Non-operating items | **1.5** | **0.2** | - | - | 9.9 | 1.8 |
| Fair value movements in derivative financial instruments | **7.3** | **1.5** | - | - | 3.6 | 0.7 |
| **Underlying profit before taxation** | **84.5** | **11.6** | 75.9 | 9.4 | 172.9 | 21.0 |
| Underlying taxation | **(11.6)** | | (9.4) | | (21.0) | |
| Underlying profit attributable to non-controlling interests | **(4.5)** | | (3.2) | | (6.8) | |
| **Underlying profit attributable to shareholders** | **68.4** | | 63.3 | | 145.1 | |

| | 2015 Pence per share | 2014 Pence per share | Year ended 31 December 2014 Pence per share |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic earnings per share as reported in the income statement | **12.7** | 13.2 | 28.0 |
| Amortisation of intangible assets arising from business combinations | **1.5** | 1.5 | 3.1 |
| Non-operating items | **0.3** | - | 1.9 |
| Fair value movements in derivative financial instruments | **1.4** | - | 0.7 |
| **Underlying basic earnings per share** | **15.9** | 14.7 | 33.7 |
| **Underlying diluted earnings per share (post-tax basis)** | **15.8** | 14.7 | 30.6 |

## 6 Earnings per share (continued)

**(c) *Diluted earnings per share***

There is no difference between earnings for the purposes of calculating diluted earnings per share and basic earnings per share (six months ended 30 June 2014 : Nil; year ended 31 December 2014 : £0.1 million increase). The potential impact on diluted earnings per share in respect of the Group's convertible bonds have not been included on the basis that they are antidilutive.

The weighted average number of ordinary shares used in the diluted earnings per share calculation is shown below:

| In millions of shares | 2015 | 2014 | Year ended 31 December 2014 |
|---|---|---|---|
| Weighted average number of ordinary shares (see note 6(a) above) | **430.2** | 430.1 | 430.2 |
| Effect of potential number of shares that could be issued on conversion of convertible bonds | - | - | 42.7 |
| Effect of share options in issue | **1.6** | 1.6 | 1.9 |
| **Weighted average number of ordinary shares (diluted)** | **431.8** | 431.7 | 474.8 |

## 7 Dividends

The following dividends were paid by the Company:

| | 2015 | | 2014 | | Year ended 31 December 2014 | |
|---|---|---|---|---|---|---|
| | **£m** | **Pence per share** | £m | Pence per share | £m | Pence per share |
| Previous period final dividend | **52.3** | **12.15** | 51.6 | 12.00 | 51.6 | 12.00 |
| Current period interim dividend | **-** | **-** | - | - | 24.1 | 5.60 |
| **Total** | **52.3** | **12.15** | 51.6 | 12.00 | 75.7 | 17.60 |

The following dividends were proposed by the Company:

| | 2015 | | 2014 | | Year ended 31 December 2014 | |
|---|---|---|---|---|---|---|
| | **£m** | **Pence per share** | £m | Pence per share | £m | Pence per share |
| Interim | **24.5** | **5.7** | 24.0 | 5.6 | 24.1 | 5.60 |
| Final | **-** | **-** | - | - | 52.3 | 12.15 |
| **Total** | **24.5** | **5.7** | 24.0 | 5.6 | 76.4 | 17.75 |

The interim dividend for 2015 of 5.7 pence per share was approved by the Board on 26 August 2015 and will be paid on 4 November 2015 to shareholders on the register on 4 September 2015.

## 8 Pension commitments

The following expense was recognised in the income statement in respect of defined benefit pension commitments:

| | **2015** **£m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| **Charge to operating profit** | | | |
| Current service cost relating to defined benefit schemes | **(3.1)** | (3.2) | (5.9) |
| Administrative expenses relating to defined benefit schemes | **(2.2)** | (2.6) | (5.1) |
| **Total** | **(5.3)** | (5.8) | (11.0) |
| **Net interest expense on defined benefit obligation** | **(9.0)** | (8.1) | (15.8) |

The valuation of the Group's main defined benefit pension schemes were reviewed by independent qualified actuaries at 30 June 2015.

A summary of defined benefit obligations and scheme assets is given below:

| | **2015** **£m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| Present value of defined benefit obligation | **(2,769.8)** | (2,557.0) | (2,818.8) |
| Fair value of scheme assets | **2,336.6** | 2,179.3 | 2,320.4 |
| Minimum funding requirement | **(13.1)** | (4.5) | (11.3) |
| **Net pension liability** | **(446.3)** | (382.2) | (509.7) |
| Related deferred tax asset | **90.4** | 77.5 | 103.5 |
| **Net pension liability after tax** | **(355.9)** | (304.7) | (406.2) |

The weighted average of the principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were:

| | **30 June 2015** % | 31 December 2014 % |
|---|---|---|
| Rate of increase in salaries | **3.70** | 3.55 |
| Rate of increase in pensions | **3.15** | 2.95 |
| Inflation rate - Retail Price Index | **3.20** | 3.05 |
| Inflation rate - Consumer Price Index | **2.15** | 2.00 |
| Discount rate | **3.95** | 3.70 |

## 9 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

| | **2015** **£m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| Cash and cash equivalents | **421.7** | 258.5 | 472.0 |
| Bank overdrafts | **(3.4)** | (3.2) | (6.2) |
| **Net cash and cash equivalents** | **418.3** | 255.3 | 465.8 |
| Bank loans | **(126.2)** | (132.0) | (145.8) |
| Finance lease obligations | **(20.3)** | (25.6) | (26.1) |
| Other loans | **(471.4)** | (301.3) | (471.2) |
| **Net borrowing** | **(199.6)** | (203.6) | (177.3) |

**9 Cash and cash equivalents and net borrowing (continued)**

Reconciliation of cash flow to movement in net borrowing:

| | **2015** **£m** | 2014 £m | Year ended 31 December 2014 £m |
|---|---|---|---|
| (Decrease)/ increase in net cash and cash equivalents | **(41.6)** | (152.1) | 52.9 |
| Net cash and cash equivalents in subsidiaries acquired | **(3.8)** | - | 6.6 |
| Repayment/(draw down) of bank and other loans | **15.7** | 155.5 | (14.7) |
| Repayment of finance lease liabilities | **4.3** | 6.9 | 9.2 |
| **Change in net borrowing resulting from cash flows** | **(25.4)** | 10.3 | 54.0 |
| Net cash/(borrowing) in subsidiaries acquired | **2.2** | - | (17.5) |
| Derivative financial instrument embedded in convertible bonds at date of issue | **-** | - | 13.4 |
| Interest accretion on convertible bonds | **(1.4)** | - | - |
| Finance lease additions | **-** | (3.8) | (4.6) |
| Currency translation differences | **2.3** | 5.1 | (7.4) |
| **Change in net borrowing** | **(22.3)** | 11.6 | 37.9 |
| Net borrowing at 1 January | **(177.3)** | (215.2) | (215.2) |
| **Net borrowing at period end** | **(199.6)** | (203.6) | (177.3) |

**10 Related party transactions**

The Group has made sales to the Group's joint ventures, which are in the normal course of business and on commercial terms, amounting to £105.4 million in the six months ended 30 June 2015 (six months ended 30 June 2014: £146.5 million; year ended 31 December 2014: £277.0 million). Amounts receivable from joint ventures amounted to £84.7 million (31 December 2014: £128.7 million) and amounts payable to joint ventures amounted to £49.2 million (31 December 2014: £37.2 million).

**11 Acquisitions and disposals**

On 28 May 2015, the Group acquired the entire share capital of Outland Group (Outland). Outland provides a complete range of remote site services across a number of growth sectors in Canada, including mining, utilities, forestry, gas and oil. The total cash consideration, which is capped at approximately £63 million, is dependent on the financial performance of Outland between 2015 and 2017. The first instalment of the consideration of £10.7 million has been included in the cash flow statement within acquisition of subsidiaries, net of cash and cash equivalents acquired. The second instalment of approximately £25 million is due in 2016, with the remainder due in 2018 and 2019.

The fair value of the deferred and contingent consideration is included within liabilities in the balance sheet and is derived from inputs that are not observable in the market. Consequently, the fair value has been determined using an estimate of the contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate of 3.4 per cent.

Due to the proximity of the acquisition of Outland to the period end, a provisional assessment has been made of the fair value of the net assets acquired of £12.0 million. This is after a fair value adjustment to goodwill on the Outland acquisition balance sheet of £0.8 million, which under International Financial Reporting Standards is reclassified at the same value as goodwill on Carillion's balance sheet, and provisional fair value adjustments totalling £10.3 million. On the basis of this assessment the provisional goodwill arising on the acquisition amounts to £51.8 million.

In the six months ended 30 June 2015, the Group paid the second instalment of the consideration amounting to £2.6 million relating to the acquisition of Rokstad Power Corporation, which completed in 2014.

In June 2015, the Group disposed of its interest in two Public Private Partnership projects. The disposals generated cash consideration of £44.1 million (of which £5.8 million was received in July 2015), which together with disposal costs paid of £0.2 million is included in the cash flow statement within disposal of joint venture and other investments.

**12 Financial instruments**

**Fair values**

Financial instruments carried at fair value in the balance sheet are non-current asset investments, derivative financial instruments and contingent consideration payable in relation to acquisitions. The fair value of non-current asset investments and contingent consideration payable is determined based on a level 3 valuation method, using valuation techniques that include inputs that are not based on market data. The fair value of non-current asset investments is calculated by discounting expected future cash flows using asset specific discount rates, with the movement in fair value each year recognised in the fair value movement on available for sale assets in the statement of comprehensive income.

The movement in the fair value of contingent consideration and non-current asset investments derived using a level 3 valuation method is show below:

| | Contingent consideration £m | Non-current asset investments £m |
|---|---|---|
| At 1 January 2015 | (48.7) | 9.3 |
| Additions | (53.1) | 0.4 |
| Discount unwind recognised in financial expense | (0.8) | - |
| Recognised in the statement of comprehensive income | - | 0.4 |
| Exchange rate movements | 3.7 | - |
| At 30 June 2015 | (98.9) | 10.1 |

The fair value of non-current asset investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £0.4 million. In respect of contingent consideration, a one percentage point increase in the discount rate would reduce the fair value of the liability by £2.0 million.

The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets, with the movement in fair value each year recognised in administrative expenses in the income statement.

The fair value of other financial assets and financial liabilities are a reasonable approximation of their carrying values and have therefore not been disclosed.

**Financial risk management**

The Group's financial risk management objectives and policies at 30 June 2015 have not materially altered and are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2014.

## 13 Share capital

The issued and fully paid share capital at 30 June 2015 was 430.3 million shares (30 June 2014: 430.3 million; 31 December 2014: 430.3 million).

## 14 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2014, except in relation to key assumptions used to determine defined benefit pension obligations as disclosed in note 8.

## 15 Guarantees and contingent liabilities

The Group has entered into guarantees in respect of letters of credit issued by banks in relation to deferred equity payments, interest payments in joint ventures and performance contracts in Public Private Partnership joint ventures. These guarantees in total amount to £80.4 million (31 December 2014: £154.9 million), with the reduction from 2014 reflecting the disposal of PPP equity investments in the first half of 2015. There has been no material change to the contingent liabilities of the Group in the six months ended 30 June 2015.

## 16 Company information

This half-yearly financial report was approved by the Board of Directors on 26 August 2015 and is available on the internet at www.carillionplc.com or on request from the Company Secretary, Carillion plc, Carillion House, 84 Salop Street, Wolverhampton WV3 0SR.

**Directors' responsibilities**

This half-yearly financial report complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirements to produce a half-yearly financial report. The half-yearly financial report is the responsibility of, and has been approved by, the Directors of Carillion plc.

The Directors of Carillion plc confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union
- the half-yearly financial report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months of 2015 and description of principal risks and uncertainties for the remaining six months)
- the half-yearly financial report includes a fair review of the information required by DTR 4.2.8R (disclosure of any material related party transactions during the first six months of 2015 that have materially affected the financial position or performance of the Group and any changes in the related party transactions described in the 2014 Annual Report that could do so).

**Forward-looking statements**
This report may contain certain statements about the future outlook for Carillion plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

**Governing law**
This report of Carillion plc for the six months ended 30 June 2015 has been drawn up and presented for the purposes of complying with English law. Any liability arising out of or in connection with the report for the six months ended 30 June 2015 will be determined in accordance with English law.

On behalf of the Board

**Richard Adam FCA**
Group Finance Director
26 August 2015

## Independent review report to Carillion plc

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015, which comprises the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of comprehensive income, the unaudited condensed consolidated statement of changes in equity, the unaudited condensed consolidated balance sheet, the unaudited condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34: 'Interim Financial Reporting' as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410: 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

**Peter Meehan**
For and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

26 August 2015